Budget 2009 CUPE Analysis
Harper “stimulus” budget falls far short

Summary

Faced with the prospect of losing their grip on power, the Harper government has made a big show of taking action to address the economic and financial crisis, but it still falls far short of what is needed to revive the economy, create jobs and protect the vulnerable. In particular, the budget fails with any substantial measures to improve public services, help the poor, set a positive new course for the economy, or provide relief for the hundreds of thousands who are expected to become jobless over the next few years.

The budget includes dozens of new spending announcement targeted at every part of the country and different sectors of the economy and over a dozen new tax cuts. Some of these measures are positive, respond to real needs and to what CUPE and others have pushed for. In particular, this includes promises of increased funding for infrastructure, for training and for Aboriginal Canadians.

But the promised funding for almost all of these measures is temporary—for only two years—conditional on other funding, and much less than what is required. This will become a major problem because the impact of this economic crisis on workers and communities will last much longer than two years. Many communities are under severe budget pressures and, under the Harper government’s “use it or lose it” rules, the funding for these programs may not flow before the expiry date.

While the budget proposes to extend benefits for those who qualify for Employment Insurance (EI), it doesn’t include any measures to increase access to EI, nor to increase benefit levels. There is also nothing to strengthen public pensions, no funding for a national anti-poverty plan, and no significant increased investments in social needs such as early learning and child care, social services or health care.

At the same time, ignoring the advice of virtually every economist in the country, the Harper government is charging ahead with broad-based personal income tax cuts that will cost about $2 billion a year and provide the greatest benefit to those with the highest incomes.

Hidden, but still included in this budget are the cuts to transfers, controls on program spending, weakening pay equity for federal employees and the privatization plans announced in Harper’s disastrous November Economic and Fiscal Update. This includes limiting growth of transfers under the Equalization program and selling off over $10 billion in federal public assets over the next five years.

These limits on the growth of Equalization will mean reductions in transfers adding up to about $7 billion over the next two years, reducing the ability of provinces to provide and deliver public services across the country.

The budget continues with the government’s misguided policies to force municipalities to consider public-private partnerships and other roadblocks to public investment in its flagship Building Canada Fund; and with its $1.25 billion fund to subsidize public-private partnerships.

The amount of economic stimulus is less than what most other industrialized countries are doing; much of it is in areas that deliver little “bang for the buck”, do little to protect the vulnerable, or create jobs and build a more productive economy.

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The 2009 Budget: Initial Report Card

Key Measures for the Budget

With the Canadian and global economies going into a severe recession and the fate of the federal government hanging in the balance, the 2009 Federal Budget was highly anticipated. It was expected to focus on stimulating the economy, helping Canadians deal with the economic downturn by protecting the vulnerable and saving and creating jobs by rebuilding the economy.

So how well did the budget deliver on these three key areas of concern?

1. stimulating the economy,
2. protecting the vulnerable, and
3. saving and creating jobs by rebuilding the economy

<u>Stimulating the Economy</u>

To stimulate the economy, the budget was expected to provide fiscal stimulus of 2% of annual economic output (GDP, or Gross Domestic Product), as had been strongly recommended by the International Monetary Fund (IMF). The IMF, World Bank and most economists also called for the stimulus measures <u>to focus on</u> social protection, jobs, infrastructure investment, and support to lower incomes to have the maximum impact and benefit.

How well it delivers economic stimulus needs to be measured by both the size and the likely impact.

Size
The budget includes about $18 billion in tax cuts, infrastructure spending and other spending commitments for 2009/10 and $15.5 billion for these measures in 2010/11. This amounts to approximately 1% of Canada's economic output of $1.5 trillion a year, or only half the IMF's 2% target.[1]

In contrast President Obama's recently announced $825 billion *American Recovery and Reinvestment Plan* would provide almost 3% in stimulus, with a target of creating over 3 million jobs.

Impact
As expected, the budget includes a strong emphasis on investment in public infrastructure, accounting for 29% of the total value of new measures in the budget. This is positive because of the infrastructure's strong economic stimulus ("multiplier") effect, because of the large infrastructure deficits that remain in Canada, and the limited revenues of municipalities and other public sector bodies.

The budget also has a strong emphasis on housing construction. This can have a relatively strong stimulus effect and help the vulnerable if the funds are provided to social housing. The budget includes $1 billion a year for social housing, with half devoted to the renovation and retrofit of existing units. This is welcome, but is less than the $2 billion a year for new affordable housing that housing advocates called for. In contrast, the budget provides almost twice as much ($3.7 billion over two years) through tax credits for home renovation, home purchase and retrofits. It is questionable how much these tax credits will

[1] To pump up its numbers, the budget document adds "leverage" from additional spending by other levels of government and through loans to get a stimulus level of 1.9% in 2009 and 1.4% in 2010, even though there is no guarantee that this will be incremental spending, or spent at all. It compares these figures with other countries stimulus packages without adding similar types of leverage to them.

stimulate additional activity or whether they will just provide a tax benefit for work that would be done anyways.

There is limited support for social protection and for those on lower incomes in this budget (see below) and what is provided is counteracted by reductions to planned transfers for the Equalization program.

The budget is also disappointing in its focus on saving or creating jobs (see below).

Instead, it includes over $5 billion in personal and corporate income tax cuts for 2009/10 and almost $3 billion for 2010/11.[2] These tax cuts add up to 25% of the value of the stimulus in the budget and provide the greatest benefit to those with the highest incomes.

For instance, the changes to the personal amounts and income tax brackets will only reduce the taxes by $66 a year for a typical two earner family with two children and an income of less than $60,000 a year. Meanwhile a similar family with an income of over $200,000 will get a tax cut of $634 a year. Since those with higher incomes save more of their money, income and corporate tax cuts don't provide much stimulus compared to direct public investment and spending, or compared to support targeted at lower income families.

Public spending and investment generates two to three times as much economic impact and jobs as personal income tax cuts, and an even greater ratio corporate tax cuts.

A $1 billion investment in early learning and childcare would create 40,000 jobs, $1 billion in healthcare 18,000 jobs, $1 billion in infrastructure about 15,000 jobs, and $1 billion in personal income tax cuts only 6,000 jobs.

Canada's economy is now expected to decline by 1.2% this year, according to the Bank of Canada. This compares to last year's budget which said it would grow by 2.4% in 2009. Both the Bank of Canada and the federal government are forecasting a short and sharp recession, with the economy recovering strongly in 2010 and in future years. Most other economic forecasters believe that the recovery will take longer and be slower. For instance, the IMF expects Canada's economy to grow by 1.6% in 2010 compared to the 2.4% expected by the finance minister and 3.8% by the Bank of Canada.

The budget's estimate of its direct economic impact is relatively modest. It estimates that it will boost Canada's GDP by 1.2% this year and by 0.1% in 2010, with an overall increase of 1.4% in two years. Adding in "leverage" from increased spending by provinces and municipalities increases it to 1.6% in 2009 and 0.2% in 2010. However, it is questionable how much of this spending by other levels of government will be additional, especially when municipalities are severely cash strapped.

It will be impossible to tell whether the measures in this budget have the stimulus impact that the government says they will: the budget includes a planning assumption for economic growth that is even more pessimistic and in a way that makes it difficult to compare.

Grade: D- for size of stimulus (direct spending equal to 52% of IMF target)
D+ for type of stimulus (good on infrastructure, but support to EI, low incomes and social protection is very limited)

Protecting the Vulnerable

The second most important objective for this budget should have been to protect the vulnerable during the economic downturn. Canada's social safety supports have become increasingly tattered.

Cutbacks to the EI program, stricter entrance requirements and reduced benefits mean that only 40% of the unemployed now receive EI benefits and the benefits only provide a maximum of $435 a week. Social assistance is even further below poverty levels. Social,

[2] Not including increases to the Working Income Tax Benefit for the working poor.

community and other public services will become even more strained during an economic downturn.

The financial crisis led to enormous losses and rising economic insecurity for retirees and those saving for their retirement through workplace or individual pensions. This will lead to increased reliance on public pensions, which should be improved.

Unfortunately, there is limited support in the budget for measures to protect the vulnerable from the economic downturn.

The support is limited to an increase in the Working Income Tax Benefit for the working poor, an extension in the weeks provided by Employment Insurance (EI) benefits, increased funds for retraining, and increased support for Aboriginal Canadians and First Nations, although most of this is through infrastructure.

There are no changes to make EI more accessible or to increase benefit levels, nothing to improve public pensions for low income seniors or to protect workplace pensions, no increases to the national child benefit for low income families, nothing to support anti-poverty efforts, no support for child care and no increases in transfers to provinces for social or public services. Most of the unemployed on low incomes with no access to EI will get no benefit from this budget.

At the same time, federal transfers for the Equalization program, which provides funding to the poorest provinces to provide public services, will be limited to grow at the same rate as the economy, as was first proposed in the November Economic and Fiscal Update. Over the next two years, this means about $7 billion less in transfers going to the poorest provinces to maintain the quality of their public services.

Grade: F+

<u>Saving and Creating Jobs by Rebuilding the Economy</u>

The other major priority for the budget should have been to save and create jobs by rebuilding our economy for the future. We have benefited from low unemployment rates in recent years because our economy has been surfing a housing, resource and financial sector boom. But underneath, Canada's manufacturing and forestry industries have been in crisis, economic growth has become increasingly unequal, and our productivity has been stagnant.

Now that these bubbles have burst, people are losing their jobs, losing their savings, and communities are suffering. Unemployment rates are expected to increase towards 8% next year. This will mean about 350,000 more people out of work compared to 2008. In addition to the human suffering and lost opportunities, higher unemployment will also mean more bankruptcies, less economic activity for businesses, and for governments, lower revenues and higher costs.

This budget should have recognized this problem and developed a strategic plan to save and create jobs by rebuilding the Canadian economy. The plan should have focused on retooling key industry sectors that are suffering, such as manufacturing and forestry, and growing new industries. It should have also strengthened public services, recognizing the role they play in not just improving our quality of life, but also increasing our productivity and competitiveness.

Governments in other countries have very successfully done this by strategically looking ahead and planning public investments, support, training, R&D, government procurement and proactive regulations to grow the industries they want with the most potential. For instance there is much potential for governments to work with industry and labour to help develop green industries.

In contrast, the Harper government's approach to economic development has been very laissez-faire, focused on cutting taxes and reducing regulations, opposed to proactive government involvement (although they have provided substantial public support to a few favoured sectors, such as oil and gas, agriculture and defence).

The 2009 Budget doesn't change this much. There is some short-term support for forestry, agriculture, shipbuilding and the auto industry. However, the forestry money is devoted to marketing and the auto funding (which has been rejected by GM) was tied to wage cuts. There is very limited support for "green industry", but this is almost all focused on carbon capture and storage, rather than increasing efficiency. There are some funding increases for culture and tourism and increased funding and investment for research at colleges and universities.

There is funding for training, but this doesn't help if the jobs aren't there. The funding for job creation is limited to student summer jobs, Aboriginal Canadians and for technology and business graduates.

The budget includes extraordinary measures to provide credit and loan guarantees to businesses and also outlines plans for national regulation of the financial industry. However, the regulation is supposed to be "principles-based" instead of rules-based. In most cases, this amounts to more self-regulation and de-regulation for the financial industry: exactly what caused the financial and economic crisis.

The budget estimates that its actions in this budget will create 142,000 net new jobs, with an extra 47,000 through provincial and municipal "leverage". This suggests that unemployment will stay below 7% next year.

But the ability to generate these extra jobs is questionable with cash strapped municipalities and no guarantee that the jobs expected from loans and housing leverage will materialize.

Grade: Incomplete

The 2009 Federal Budget was prepared with an exceptional amount of attention and expectation. It followed in the wake of a financial crisis that destabilized the world economy and triggered a fundamental shift in accepted economic policy.

The thirty year reign of supply-side tax cuts, fiscal discipline, deregulation, and privatization as economic orthodoxy ended. Instead, governments around the world embraced activist government, re-regulation and Keynesian fiscal stimulus as a solution to the economic and financial crisis.

The Harper government's first test in navigating these new waters, its November Economic and Fiscal Statement, was a failure on a number of different levels. It featured implausible forecasts, a cavalier approach to the economic crisis and crass political opportunism that backfired, almost causing the government downfall.

With a worsening economy, the 2009 Federal Budget was held up to another set of tests: 1) could it gain political support to pass and 2) could it deliver on key areas of economic concern: stimulating the economy, protecting the vulnerable, and helping to save and create jobs by rebuilding the economy.

The budget seems to have passed its first political test, having gained the support of the opposition Liberals. While the jury is still out on whether it can ultimately meet these key economic tests, this initial report card suggests that a lot more progress will be needed.

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